



**Milwaukee County Employees' Retirement System Pension Board
November 10, 2022 Investment Committee Meeting
MINUTES**

Call to Order

Investment Committee Chairperson Ron Nelson called the Investment Committee to order at 10:07 a.m. on Thursday, November 10, 2022. The meeting was held virtually due to Milwaukee County's and the City of Milwaukee's Stay Safe MKE initiative limiting gatherings in light of the COVID-19 pandemic.

Committee Members Present:

Nicole Best
Ron Nelson
Himanshu Parikh

Others Present:

Chris Caparelli, Marquette Associates Inc.
Erika Bronikowski, Retirement Plan Services
Annamarie Kirsanoff, Retirement Plan Services
Judd Taback, Milwaukee County Office of Corporation Counsel
Nicholas Moller, J.P. Morgan
James Sakelaris, J.P. Morgan

Other Pension Board Members Present:

Jeff Gollner – joined at 10:45 a.m.
Anthony Johnson
David Robles

1. Topic: Chairperson's Report

Committee Chairperson Nelson welcomed everyone to the meeting. He noted that the market has continued to be volatile, however there was a \$50 million rebound in the fund in October. Additionally, the impact of the U.S. Midterm election is still unknown. He is looking forward to reviewing the Fund's performance and to discussing the Plan's rate of investment return assumption at today's meeting.

2. Topic: Meeting Minutes – September 13, 2022

A motion by Trustee Best, seconded by Trustee Parikh, was made to approve the September 13, 2022 Investment Committee Meeting minutes. The motion passed unanimously.

3. Topic: Investment Manager Update

Mr. Caparelli introduced the presenting investment manager, J.P. Morgan, who would be presenting on their Infrastructure Investments Fund ("IIF"). The market value of assets invested with that team is approximately \$110 million, or seven percent, of the portfolio. He noted that infrastructure has been a helpful component of the portfolio during the market's recent volatility and that it is similar to real estate in its return profile, however the underlying assets are different.

Mr. Sakelaris introduced the J.P. Morgan team that was on the call and noted that the market is volatile.

Mr. Moller explained the IIF's strategy, the impact of rising interest rates on this investment, and recent performance. He then provided a team overview.

He further explained that this fund invests in regulated utilities, long term contracted assets, and renewables. To a much lesser extent, it is also invested in GDP sensitive assets like roads and airports. He noted that usage of heat, water, and electricity don't change much and that this fund has a lack of correlation to fixed income and equities.

Mr. Moller noted that interest rates have been rising recently and that infrastructure has not really repriced. The underlying assets are still reasonably priced on a long-term basis.

The IIF, established in 2006, has an open-ended long-term fund structure. \$27 billion is invested in the fund which covers 20 companies and approximately 800 assets. The J.P. Morgan team sits on the board of each of the companies in the fund and is actively managing the companies.

Providing a team overview, Mr. Moller noted that the team managing the fund have been the same for over 10 years.

Mr. Moller then provided an update on the IIF's performance. The IIF returned 8.5% over the last year and 6% year-to-date.

In response to a question from Chairperson Nelson, Mr. Moller explained that recent transition toward renewable energy has resulted in an acceleration in infrastructure investment.

Responding to a question from Mr. Caparelli, Mr. Moller confirmed that the IIF was growing and was not expected to get too large any time soon. Additionally, he noted that the IIF is self-governing in that as it gets larger, capital could not be deployed as quickly which would result in a long queue to enter the fund that would dissuade investors.

4. Topic: Market Update and Report on Plan Assets

Mr. Caparelli provided an update on the Quarter 3 and October 2022 performance of the Fund.

Through the end of September, stocks were down about 25% and bonds were down about 15%. At the end of September the Fund held approximately \$1.6 billion. The Fund's year to date return at the end of September was -13.3% which was good relative to its peer group. The 10 year return on the Fund is 7.4%.

He noted that the Fund saw \$50 million in gains in October 2022, bringing the Fund to \$1.655 billion at the end of October. The year to date losses were cut to -10.5% by the end of October.

Mr. Caparelli provided some comments on inflation, noting that it peaked in early summer at 9.1%. By September, it was down to 8.2% and as of November 10, it is 7.7%. The inflation trajectory is on the right path. He further noted that it is expected that the Fed will continue to raise interest rates for a few more months but it appears as though we are closer to the end of this stint of interest rate hikes. The terminal rate expectation is around 5%. He noted that it went from near 0% late last year to over 4% this year which is historically, very unusual.

Mr. Caparelli explained the Fund's allocation, noting that the Fund is overweight in infrastructure and private equity. This is primarily due to the illiquidity of the assets and recent performance. Currently, there are redemption requests into real estate and infrastructure managers, and it is expected that that capital will be returned to the Fund over the upcoming quarters. The redemption requests will be helpful in correcting the imbalances.

In response to a question from Trustee Parikh, Mr. Caparelli explained that due to the \$50 million in redemptions from real estate and infrastructure, rebalancing to correct those overweight assets would not be necessary. He also added, in response to a question from Chairperson Nelson, that most of the imbalance in asset allocation was due to market decline.

The Committee entered closed session under Section 19.85(1)(e), Wis. Stats., with regard to Item(s) 5 for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session.

5. Topic: Assumed Rate of Return and Asset Allocation

The Committee discussed Item 5 in closed session. Upon returning to open session, no action was taken.

6. Topic: Adjournment

Meeting adjourned at 11:55 a.m.